

MISSOURI BUDGET AND LEGISLATIVE AGENDA

Missouri is a Leader in Education

“I will work tirelessly to find a solution that provides a quality education for Missouri’s children.”

Governor Bob Holden

Governor Holden’s highest priority has always been education. Providing a quality education to Missouri’s children is the best way to ensure the future success of the state and compete in the new, global economy. A high quality education leads to better school attendance, higher test scores, and greater success in college and the workplace. Missouri has made great strides in improving the quality of public education. However, these improvements are in jeopardy due to the continuing budget shortfall.

- Between 1996 and 2003, high school graduation rates increased from 74.9 percent to 84.2 percent. Missouri now ranks in the top ten nationally on high school completion rates.
- Missouri’s students have shown significant progress on the National Assessment of Educational Progress over the past ten years. Fourth graders scoring in the top levels for math have improved from 19 percent to 30 percent, with gains in reading as well. Eighth graders in the top levels for reading rose from 28 percent to 34 percent and made significant gains in math.
- Approximately 60 additional teachers have become accredited through National Board Certification in 2003, bringing the total number certified in Missouri to 199. Certification improves the quality of teaching which is the chief determinate of student academic progress.
- Missouri students’ ACT scores remain consistently above the national average. In 2003, Missouri students averaged 21.4 on the ACT while their national counterparts averaged 20.8. The ACT measures mastery of English, mathematics, reading, and science and is an indicator of how well students are prepared for college.

The Governor vetoed Fiscal Year 2004 appropriation bills for elementary and secondary education and higher education in an attempt to protect Missouri education programs from further budget reductions. Unfortunately, the General Assembly has not agreed to close corporate loopholes and increase taxes on the gaming industry that would raise revenues to maintain our commitment to Missouri public education. Instead, the General Assembly cut education by hundreds of millions of dollars.

This year, the Governor will continue to push for a targeted revenue plan to adequately fund Missouri’s educational system and protect public schools from devastating cuts that inevitably lead to fewer teachers, larger class sizes, fewer classroom resources, lower academic achievement for students, and tuition increases that hinder access to college.

The Impact of State Budget Cuts

Deep cuts have already been made to the Missouri budget. State departments have worked to minimize the impact of reduced funding on services. However, the following examples show how these cuts have negatively impacted the education community and Missouri students:

- On January 6, 2004, more than 240 school districts filed a lawsuit against the state for its failure to adequately and equitably fund public education.
- The School Foundation Program was reduced by \$115.8 million by the General Assembly. Since a significant percentage of the program supports teacher salaries, school districts were forced to eliminate 2,001 classroom teachers and aides. An additional 508 positions were also reduced that included principals, supervisors, library/media personnel, guidance personnel, and administrative staff.
- Reductions to the School Foundation Program have forced school districts to increase class sizes and eliminate programs for gifted, at-risk, and disruptive students.
- New technology grants to schools were reduced by \$8.8 million, a 42 percent decrease. This resulted in markedly reduced grants to school districts for the purchase of computers, software, and Internet connections.
- The Safe Schools Program was cut by \$2 million, resulting in no first-year grants for school districts. The loss of funding has forced many school districts to eliminate programs to educate disruptive and/or violent children in alternative settings. As a result, these students will again be placed in regular classrooms, making learning more difficult for all children.
- The A+ Schools Program was reduced by \$5.9 million, resulting in students no longer receiving reimbursement for textbooks.
- The Missouri Assessment Program (MAP) was reduced by \$4.4 million, resulting in the state not being able to administer the Science, Social Studies, and Health/Physical Education assessments. Without these assessments, the department is unable to determine how well students are performing statewide in these important subject areas.
- A reduction of \$39.7 million in state aid to higher education institutions has resulted in tuition costs at Missouri's public four-year colleges and universities rising by an average of 14.8 percent in the last year. Tuition costs at Missouri's community colleges have risen by an average of 9.3 percent over the same time period. The average Missouri college student now pays \$1,344 more per year in higher tuition and fees to attend a four-year institution and \$342 more per year to attend a two-year institution. The tuition increases have placed an enormous financial burden on Missouri students and their families, and have forced an increasing number of students to take on unacceptably high levels of debt in order to pursue a college education. In addition to increasing tuition, institutions have been forced to eliminate programs and cut faculty and staff in order to deal with the funding reductions.
- Missouri's grant and scholarship programs were reduced by \$589,550, resulting in many students not receiving financial aid. Reduced financial aid, on top of crippling increases in tuition, is prohibiting some lower and middle income families from affording the cost of college.

Governor Holden's Accomplishments

Prior to legislative cuts, Governor Holden accomplished the following to improve the state's investment in public education:

- Secured \$213 million in Fiscal Year 2002 to increase funding for the state's School Foundation Formula and At-Risk Program. The Governor also secured \$135 million in Fiscal Year 2003. In the current fiscal year, the state's School Foundation Program was reduced \$115.8 million by the legislature.

- Proposed landmark legislation to establish a means to recognize high-performing schools, as well as placing certain requirements on schools not meeting basic academic standards. House Bill 1711 was signed into law June 19, 2002.
- Recommended legislation to require report cards on academic performance and school conditions at the building level. Senate Bill 575 and House Bill 865 were signed into law on June 14, 2001.
- Signed legislation to clarify that assets from criminal forfeiture cases benefit the School Building Revolving Fund. Senate Bill 5 was signed into law May 17, 2001. Further changes through Senate Bill 675, signed into law June 26, 2003, allowed additional support for the School Foundation Program during Fiscal Year 2004.
- Selected as one of only five governors to serve on the National Governors' Association School Readiness Task Force. This group will offer guidance to all governors on efforts to help students enter school ready to learn.
- Established the Missouri School Violence Hotline to protect Missouri's school children. The hotline is a joint effort of the Departments of Public Safety, Social Services, and Elementary and Secondary Education. Students, parents, and school personnel are encouraged to report physical acts, threats, bullying, intimidation, fights, and weapons on school property.
- Pushed for the additional certification of teachers by the National Board for Professional Teaching Standards. The voluntary certification process is a way of encouraging teachers' professional growth and recognizing individual teaching excellence. Governor Holden recognized 61 additional Missouri teachers in 2003.
- Recognized 176 school districts for "Distinction in Performance." The criteria, established by the State Board of Education, include MAP test scores, ACT test scores, attendance and dropout rates, and other academic performance measures. One-third of the state's 524 school districts have met these state standards which are based on accreditation requirements.
- Established the Missouri Math Academy to improve mathematics instruction. The academy trained 105 teachers in 2003 and is expected to train another 100 in 2004.
- Signed legislation authorizing the Coordinating Board for Higher Education to promote and encourage the development of cooperative agreements between Missouri's public four-year institutions. This will provide greater access to graduate education on the campuses of public institutions that do not currently offer graduate programs. Senate Bill 55 was signed into law on July 11, 2003.
- Bestowed the Governor's Award for Excellence in Teaching to nearly 200 college and university faculty between 2001 and 2003.

FUNDING PUBLIC ELEMENTARY AND SECONDARY EDUCATION

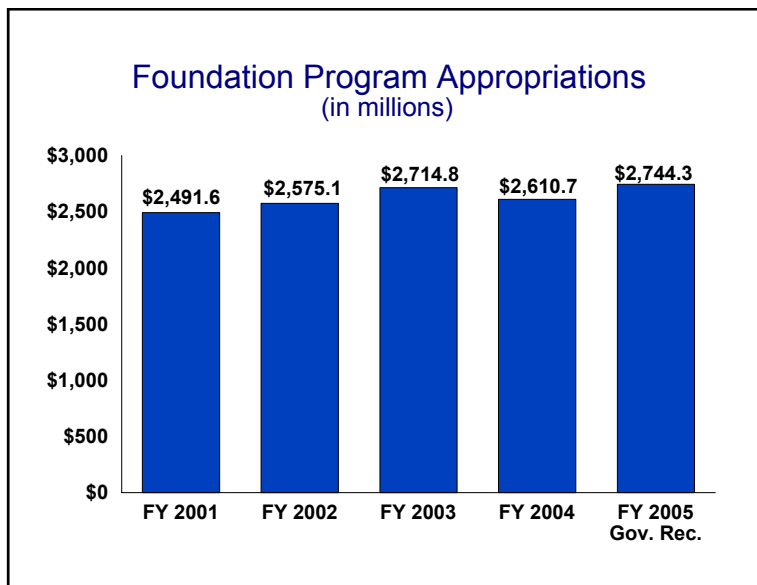
In the Fiscal Year 2005 budget, Governor Holden will, once again, make protecting education his top priority. He is committed to balancing the budget while protecting funding for Missouri's 524 local public school districts. With budget reductions over the past three years, the Governor has fought to protect funding for K-12 education. However, in Fiscal Year 2004, the General Assembly cut the Foundation Program by \$115.8 million. Restoring funding of the Foundation Program will assist school districts in providing vital services and essential tools students need to succeed in school. The Foundation Formula, one component of the Foundation Program, provides funds to improve student academic achievement, lower class sizes, provide professional development opportunities to teachers, and improve curriculum. The Governor's Fiscal Year 2005 budget restores the money the General Assembly cut as follows:

- \$100 million for the Foundation Formula and At-Risk Program, increasing total funding to \$2.2 billion.
- \$9.9 million for the School Transportation Program, bringing total state funding to \$162.1 million.
- \$2.4 million for Parents As Teachers, bringing total state funding to \$30.3 million.

- \$1.5 million for the Gifted Program, bringing total state funding to \$24.9 million.
- \$800,000 for Vocational Education, bringing total state funding to \$52.9 million.

In addition to restoring the reductions to the School Foundation Program, the Governor's Fiscal Year 2005 budget includes the following increases for education:

- \$20.7 million to provide educational services to three- and four-year-old children with disabilities.
- \$12.5 million from Proposition C sales tax revenue for distribution to local school districts. Proposition C is a portion of the state sales tax dedicated to schools.
- \$20 million for federally mandated special education services to provide grants that support students with disabilities.
- \$15 million for the Reading First Grant Program which provides resources for teachers to improve reading instruction.
- \$5 million for competitive grants to school districts and community-based organizations to establish or enhance after school programs. Quality after school programs keep children safe until their parents get off work and provide a variety of services such as drug and violence prevention training, technology education, and counseling.



STATE AID TO LOCAL SCHOOL DISTRICTS
(Not Including Desegregation)

	FY 2004 APPROPRIATION	FY 2005 RECOMMENDATION
School Foundation Program		
Equity Formula and At-Risk	\$ 2,075,857,670	\$ 2,175,891,721
Transportation	152,167,319	162,067,713
Gifted	23,415,942	24,870,104
Special Education	149,617,982	149,617,982
Remedial Reading	11,096,925	11,096,925
Early Childhood Special Education	81,274,784	102,011,209
Career Ladder	37,297,656	35,526,150
Vocational Education	52,080,428	52,880,428
Parents As Teachers	27,895,976	30,304,651
Subtotal Foundation Program	\$ 2,610,704,682	\$ 2,744,266,883
Other State Aid		
A+ Schools Program	\$ 12,609,960	\$ 12,609,960
Adult Literacy	500,000	500,000
Safe Schools Grants	5,122,368	4,122,368
Proposition C Sales Tax	693,947,458	706,400,000
Fair Share Cigarette Tax	23,225,250	22,500,000
Free Textbook Fund	89,650,000	73,950,000
School Food Program	3,460,219	3,487,799
Early Childhood Program	16,545,112	16,545,112
DSS/DMH School Placements	10,099,337	10,099,337
Subtotal Other State Aid	\$ 855,159,704	\$ 850,214,576
Total State Aid to Local Schools	\$ 3,465,864,386	\$ 3,594,481,459

Local Funding for Education

In addition to the vital state funding that goes to Missouri's 524 school districts, public schools also rely on local funding from property taxes. Because the General Assembly has failed to adequately fund public education, more school districts are required to ask voters to increase local property taxes to aid their local schools.

Most ballot issues placed before voters require a simple majority in order to pass — 50 percent of the vote plus one. For local school district bond issues, Missouri's Constitution currently requires a supermajority — 57 percent to 67 percent of the total vote. Missouri is one of only ten states that continues to require a supermajority for approval of school district bond issues. Nearly all other ballot proposals, including the election of legislators and statewide elected officials, are decided with a simple majority vote. Depending on the election date, the same ballot issue could be required to gain four-sevenths majority or two-thirds majority. Governor Holden supports changing this provision.

2004 Legislative Initiative Simple Majority for Local School Bond Issues

If the General Assembly continues to inadequately and inequitably fund public education, they should at least give schools and voters the opportunity to maintain or generate additional local funding. The Governor calls on the General Assembly to pass a constitutional amendment allowing Missouri voters to pass local school bond issues with a majority of affirmative votes.

Lottery Proceeds for Education

Article III, Section 39(d) of the Missouri Constitution, approved by voters in August 1992, requires all net proceeds from the State Lottery be appropriated solely for elementary, secondary, and higher education. During Fiscal Year 2005, \$206.7 million will be available from lottery revenues for education. The Governor recommends \$131.2 million to support programs in the Department of Elementary and Secondary Education and \$75.5 million to support programs in the Department of Higher Education. The Governor recommends allocating estimated lottery revenues as shown on the following page.

LOTTERY PROCEEDS FOR EDUCATION

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<u>ELEMENTARY AND SECONDARY EDUCATION</u>	
• Character Education	\$ 250,000
• A+ Schools	12,563,100
• Safe Schools/Alternative Schools	4,122,368
• Advanced Placement/Dual Credit	711,786
• Transportation	78,371,749
• Early Childhood Special Education	6,460,897
* Early Childhood Special Education	10,087,610
• Special Education	3,762,000
• Gifted	198,351
• DSS/DMH Public Placements	7,768,606
• Research Contract	110,880
• Early Grade Literacy	145,000
• State Schools Operating Maintenance and Repair	342,754
• Vocational Rehabilitation	1,400,000
• Minority Scholarships	200,000
• Scholars Academy	158,156
• Test Development	<u>4,568,630</u>
SUBTOTAL	\$ 131,221,887
<u>HIGHER EDUCATION</u>	
• Four-Year Institutions Operations	\$ 46,969,759
• Four-Year Institutions Operating Maintenance and Repair	18,893,066
• Community Colleges Operations	4,833,814
• Community Colleges Operating Maintenance and Repair	2,062,778
• Missouri College Guarantee Program	<u>2,750,000</u>
SUBTOTAL	\$ 75,509,417
TOTAL	<u>\$ 206,731,304</u>
*Increased funding	

ENSURING CHILDREN ARE SAFE AT SCHOOL

Classroom safety should be a priority for students, parents, schools, and policymakers. Students deserve the opportunity to attend schools that are safe and free of violence and disruption. Unfortunately, Missouri students are at risk because state laws do not offer full protection against individuals with weapons or potential employees with a criminal record. Governor Holden is committed to ensuring Missouri children have safe learning environments.

2004 Legislative Initiative Gun-free Schools

Missouri's law should be clear - bringing a gun to school is against Missouri law. The Governor calls on lawmakers to pass the Gun-free Schools Act that:

- Makes it unlawful for any individual to possess a firearm on school property. School property is defined as any public, parochial, parish, or private school.
- Clarifies it is against the law to discharge, or attempt to discharge, a firearm on school property.
- Institutes a Class D felony to carry a concealed weapon into a school facility, punishable by up to four years in prison. If death or injury occurs as a result of possessing a firearm on school property, the penalty increases to the maximum allowable, a Class A felony.

2004 Legislative Initiative School Personnel Background Checks

Currently teachers must have a background check when obtaining their certification. Other school district employees such as aides, custodians, secretaries, and cooks who come into contact with students are not required by state law to have a background check as a condition of their employment. To ensure that Missouri children are safe at school, the Governor supports legislation that:

- Mandates all school district employees who come into contact with students undergo a background check before being employed.
- Assures both state and Federal Bureau of Investigation (FBI) criminal history screenings are conducted.
- Requires prospective school employees to pay for the cost of the background screenings but allows school districts to reimburse the individual.

SUPPORTING HIGHER EDUCATION

The Governor understands that economic growth in the 21st Century is based on knowledge, innovation, and the use of technology. Missouri's higher education system plays a critical role in ensuring Missouri stays at the forefront of these cutting edge advances and in supplying skilled workers that are necessary to stimulate economic growth in the state. An educated workforce is the State of Missouri's most important economic development tool.

Access to Higher Education for Missouri Families

Unfortunately, Missouri's college attendance rate is only 39 percent – the same rate as Arkansas, while Kansas is at 45 percent, Iowa at 53 percent, and Nebraska at 52 percent. This low rate of college participation puts Missouri at a severe economic disadvantage because a lack of skilled workers hinders a state's ability to attract and retain high quality jobs and businesses. A study by the University of Missouri – Columbia, Department of Economics, states that Missouri's low college participation costs the Missouri economy \$37 billion a year.

Compounding the problem of Missouri's low college-going rate is the fact that funding for higher education has been cut significantly in recent years. From Fiscal Year 2002 to Fiscal Year 2004, general revenue appropriations for the Department of Higher Education were cut by \$136 million, or 14 percent. Only four states, Massachusetts, South Carolina, Colorado, and Virginia, cut higher education funding more during this same time period. Missouri's reductions in higher education funding are also significantly more than the four percent national average of funding reductions over the same time period. Although the Department of Higher Education and the higher education institutions have worked to minimize the impact of reduced funding on services, the negative implications of these funding reductions have been significant.

For example, the Fiscal Year 2004 reduction of \$39.7 million in state aid to higher education institutions has resulted in tuition costs at Missouri's public four-year colleges and universities rising by an average of 14.8 percent in the last year. Tuition costs at Missouri's community colleges have risen by an average of 9.3 percent over the same time period. The average Missouri college student

now pays \$1,344 more per year in higher tuition and fees to attend a four-year institution and \$342 more per year to attend a two-year institution. These increases are significantly above those experienced in neighboring states such as Illinois, which saw an 8.4 percent tuition increase at its public four-year institutions and a 6.7 percent increase at its two-year public institutions. In addition to increasing tuition, institutions have been forced to eliminate programs and cut faculty and staff in order to deal with the funding reductions. The tuition increases have placed an enormous financial burden on Missouri students and their families, and have forced an increasing number of students to take on unacceptably high levels of debt in order to pursue a college education.

In addition, Missouri's grant and scholarship programs were reduced by \$589,550 in Fiscal Year 2004 resulting in many students not receiving critical assistance. Reduced financial aid on top of crippling increases in tuition is causing some families with lower and middle incomes to no longer be able to afford the cost of college.

Higher Education Funding Increases

It is imperative to reverse the drastic reductions the General Assembly has made to higher education funding. Such cuts to education lead to spiraling tuition, fewer trained workers, and a weakened future economy. Governor Holden's budget for Fiscal Year 2005 provides a total of \$1.1 billion for the Department of Higher Education. The Governor's commitment to higher education is illustrated by the fact that, even in the face of significant revenue shortfalls, the Fiscal Year 2005 budget includes a \$41.5 million funding increase for Missouri's two- and four-year higher education institutions. This restores the cut made by the General Assembly in Fiscal Year 2004.

In addition, Governor Holden has recommended funding increases for two of Missouri's grant and scholarship programs. The Vietnam Veterans' Survivors Scholarship Program provides higher education scholarships to the children and spouses of veterans of the Vietnam War whose death was caused by exposure to toxic chemicals. The Public Service Survivor Grant Program provides grants for higher education expenses for the children and spouses of public employees killed or permanently and totally disabled in the line of duty. Governor Holden has recommended an additional \$45,830 for these programs to ensure that all qualified applicants will receive grants and scholarships.

Jobs Now

Missouri must not only increase the percentage of Missouri high school graduates going to college but increase enrollment in high-demand degrees. This will, in turn, attract high-tech businesses to the state. The Governor's Jobs Now proposal (outlined in the "Building Jobs for the Future" chapter of the *Budget and Legislative Agenda*) will encourage Missouri's higher education students to pursue fields of study that will lead to employment in high-demand occupational fields with Missouri companies. For over twenty years, the Missouri Higher Education Loan Authority (MOHELA) has offered Missouri students and parents the lowest interest rates for student loans in the nation. Through a cooperative effort between MOHELA, the Department of Higher Education, and the Department of Economic Development, excess yields in MOHELA's revenue bonds will be set aside for this initiative. To address Missouri's immediate and future workforce needs, \$3 million annually will be made available in student loans for those pursuing degrees in math or science. Loan forgiveness will also be granted for those students who go to work at Missouri life science companies after graduation (\$18 million over the next six years).

ENHANCING REVENUE FOR EDUCATION

In Fiscal Year 2005, Governor Holden will, once again, make protecting education a top priority. Although budget cuts have already been deep, Governor Holden's Fiscal Year 2005 budget contains additional reductions, but not to education. Despite these spending reductions, there is still not enough revenue to cover mandatory increases in health care and prison costs, and protect education funding. Therefore, Governor Holden calls upon the General Assembly to choose children and the state's chances for future economic success over corporate tax loopholes.

In addition to these targeted revenue enhancements, the Governor recommends legislation that will require the Missouri General Assembly to approve any future changes to the state tax structure that currently occur automatically as a result of federal action. This applies to all changes that either increase or decrease revenue. Currently, the Missouri tax code is tied tightly to the federal tax code. The President and the United States Congress can change Missouri tax policy even if the change negatively damages the state's revenues. In the past few fiscal years, the state has lost over \$276 million in tax revenue because of this coupling. Missouri should be given the opportunity to weigh federal changes to ensure they are in the best interest of the state and its citizens. This will help proactively protect education from unexpected changes in collections caused by additional federal tax code changes.

2004 Legislative Initiative Funding for Education

The Governor calls on the General Assembly to raise \$520 million for public education by closing tax loopholes and targeting revenues to protect education.

Closing Special Corporate Tax Loopholes

Missouri must stop giving away limited state resources through special tax loopholes that benefit a few wealthy corporations. At the same time, tax loopholes that do not expand the economy must be eliminated. Closing these loopholes will save \$121 million.

Geoffrey loophole - \$11.3 million. National franchises set up dummy corporations in other states to avoid a large portion of Missouri taxes. Illinois and 25 other states have provisions to close this loophole.

Disallow non-Missouri source income - \$23.3 million. Missouri may be the only state that allows corporations to avoid paying state taxes on income from out-of-state investments.

Refunds to purchasers - \$7.5 million. Currently, a business that applies for and receives a sales tax refund for taxes they have inappropriately collected from customers is not required to even attempt to find and return the overpayment to the purchaser. Businesses should not keep this money.

Disallow single factor - \$57.9 million. Unlike most states, Missouri gives corporate taxpayers a choice on how to apportion income to Missouri versus other states.

Common carriers - \$7.4 million. Years ago the legislature enacted sales tax exemptions for "common carriers." Carriers were required to register with the federal government, allowing only true common carriers (i.e., trucking companies for hire) to qualify. Today a substantial number of companies form trucking subsidiaries in order to claim these exemptions.

Eliminate timely filing discount for withholding tax - \$13.8 million. Missouri businesses receive a discount for sending the income withholding taxes they collect from employees to the state. Missouri is the only state that provides this discount.

Targeted Revenue Increases to Protect Education

In addition to eliminating loopholes, Governor Holden recommends increasing targeted revenue sources by \$399 million to protect education.

Increase gaming revenues - \$115.7 million. Increase the adjusted gross receipts tax from 20 to 22 percent, generating \$24.5 million. Riverboat operators pay this tax which is based on the amount of money lost by patrons. The state share will increase from 18 to 20 percent and the local share of two percent will remain the same. In addition, the current \$2 admission fee charged for each two-hour cruise will be changed to a flat daily fee of \$7, generating \$51.1 million. Missouri is the only state with a loss limit on riverboat gaming; eliminating loss limits will generate \$40.1 million.

Increase the cigarette tax - \$222.4 million. Increase the tax on a pack of cigarettes from 17 cents to 72 cents and the tax on other tobacco products from ten percent of wholesale price to thirty percent. Tobacco use in Missouri is one of the highest in the nation — 27 percent of adults smoke and one-third of teenagers are smoking. Currently, Missouri's cigarette tax is fifth from the bottom of all states. The increased tax would move Missouri to about the average rate across the nation, but still below both Illinois and Kansas.

Implement a surcharge on incomes greater than \$200,000 - \$11.9 million. Place a surcharge of five percent on the tax paid by those with taxable incomes greater than \$200,000. The surcharge would be approximately \$600, a one-half percent increase that affects only 1.4 percent of taxpayers.

Decouple from the federal tax code. The General Assembly should approve any changes in the federal tax statutes before they can affect Missouri tax revenues.

Accelerated depreciation - \$48.8 million. In 2002, the General Assembly passed a one-year moratorium on federal accelerated depreciation. Missouri should permanently eliminate the use of federal accelerated depreciation on state tax returns. It will still be allowed on federal returns.